2006/2007 : Report 1

OFFICE OF THE

Auditor General of British Columbia

Strengthening Public Accountability:

(a journey on a road that never ends)

April 2006

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2006/2007 Report 1: Strengthening Public Accountability: (a journey on a road that never ends).

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
April 2006

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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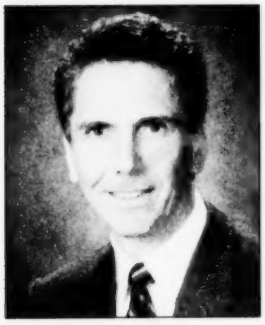
Introduction



Wayne Strelioff, FCA
Auditor General

As my term as BC's Auditor General comes to an end, I thought it would be useful to look back at the final report of my predecessor, George Morfitt, FCA. (*Towards a More Accountable Government: Putting Ideas into Practice*, dated March 2000, for the fiscal year 1999/2000, Report 11) In his report, Mr. Morfitt states "The way ahead is clear. Improving accountability in the British Columbia public sector takes, first and foremost, leadership, and second, legislation. The time is overdue for action on both these fronts."

When I was appointed Auditor General, I agreed with the recommendations to legislators made by Mr. Morfitt. In the past six years, I think much has been accomplished to realize his call for action.

In the spirit of his report, I offer my own thoughts and observations on the significant accountability reforms now underway and my recommendations on what further reforms are required. I therefore call my last report—*Strengthening Public Accountability: a journey on a road that never ends.*

I have now carried out the responsibilities of Auditor General in British Columbia for six years and before that for nearly ten years in Saskatchewan. In this last report, I describe several key steps taken by BC's elected representatives and its government that move towards earning public confidence and respect. I also describe the way ahead in terms of what still needs to done and note several observations.

When I took on the responsibilities of BC's Auditor General in May 2000, a robust public discussion was taking place on how best to strengthen the means to hold government accountable. Events of the day served to raise questions about the integrity of government public financial plans and reports, the rigor of its capital asset management practices, and the sustainability of its revenue raising and spending levels. In addition, elected officials were discussing what information they required to help them carry out a more meaningful public scrutiny of the performance of government.

In my view, the time was right to put in place significant accountability reforms. However, I knew any significant accountability reform would be difficult to put in place in a sustainable manner because of the size of government, the complexity of its governance and management structures and the ability of government to resist change particularly when such change leads to a more rigorous public scrutiny of its own performance—clarity exposes priorities, choices and results.

Significant Accountability Reforms Are Underway

During the past six years, legislators and government initiated several significant accountability reforms making possible a stronger and more meaningful public scrutiny of the performance of government. Those reforms are beginning to take hold.

A known timetable for planning

The government's annual financial plan is now presented in February of each year. Service plans of government ministries and many Crown agencies are published at the same time.

Officials of government can now focus their attention on managing and delivering planned results instead of on developing, and redeveloping, proposals until the government decides to lock in and present its plan at some indefinite time in the future. With a known planning timetable, the public and its elected representatives can be better prepared to scrutinize the government's proposed plans, priorities and results.

More rigorous accounting

The government's financial plans and financial statements are now both prepared using the same rigorous accounting methods, generally accepted accounting principles.

As a result, officials of government now use a solid framework of accounting rules to manage, measure and report the financial results of their policies and decisions. BC people and their elected representatives can now compare with confidence the government's planned financial results to its actual achieved results. All now know revenues and expenses are measured consistently and all assets and liabilities are reported completely.

A framework of principles for performance reporting

Legislators, government officials and my office have agreed on a common set of principles to be used when government organizations determine the contents and structure of their annual service plans and performance reports. The principles include an expectation that an organization's public performance reports will explain and identify:

Significant Accountability Reforms Are Underway

- The purpose of individual organizations, the results to be achieved through their programs and the costs of those results. Such explanations are required and necessary to assess the efficiency and effectiveness of what government does.
- The extent to which an organization has the capacity to achieve planned results. Organizations are asked to disclose the extent to which they have both sufficient resources and the time required to achieve planned results.
- The risks an organization needs to manage to achieve its expected results successfully. Risks can vary from interest rates, commodity prices and the weather to decisions of other governments, changes to service delivery methods and information systems, the availability of management talent or an aging population.

As a result, government managers now have a solid, agreed upon framework for planning, monitoring and explaining their performance. And, elected officials can use, if they choose to do so, the same strong framework to carry out a more meaningful public scrutiny of government performance.

Timely performance reporting

Government performance reports and financial statements are now published in a very timely manner—three months after the government's fiscal year end.

Not many years ago, the government's annual financial statements were published nearly twelve months after its fiscal year end. As a result, legislators did not have the information required for any meaningful public scrutiny of the financial performance of government. They now do.

Governance practices to be disclosed

Many government programs and services are delivered by organizations led by government appointed boards of directors.

Recently, government prepared guidance to help boards of directors determine and assess their governance practices. The guidance is particularly useful as it is set out in the unique context of the provincial public sector rather than in the context of the private sector.

Significant Accountability Reforms Are Underway

Beginning April 1st 2006, boards of directors must publicly disclose their governance practices including: whether the board chair is a separate position from the chief executive officer; the types and roles of board committees; and the working relationship between boards and their internal and external auditors.

Such disclosure assists legislators assess whether the governance practices of important public sector organizations are sound.

A solid, new Auditor General Act

Over the years, BC's Auditors General advised legislators significant changes were needed to the responsibilities and authorities described in the Auditor General Act. The most urgent changes related to the ability of government to influence the work of the Auditor General through the government's authority to appoint private auditors for most government organizations and by the government's ability to determine and restrict the resources provided to the Auditor General.

In April 2003, a new Auditor General Act was proclaimed. The Act assigns legislators the authorities previously provided to government. Accordingly the new Act establishes a closer and more appropriate working relationship between legislators and their auditor.

When legislators decide further revisions are required to the responsibilities and authorities of their Auditor General, I recommend they put in place a fixed term of appointment with no opportunity for reappointment. The responsibilities of an Auditor General are such that the possibility of reappointment might be perceived to influence his or her decision making.

Other jurisdictions have put in place ten year terms. I think a term of eight to ten years would be appropriate. Currently, the appointment term is six years with an opportunity to be re-appointed for a second six year term.

Much good work has been done to create a stronger framework that strengthens the means by which government officials manage public programs and by which legislators oversee government performance. With the above noted important changes taking hold, attention should focus on strengthening the following three areas—government financial statement reporting, performance reporting and legislator scrutiny.

Each ministry requires financial statements

Most public and private sector organizations use financial statements as a tool to plan, monitor and report their performance. Ministries of government do not prepare their own financial statements. Therefore, they cannot plan, monitor and report their performance in the same way other organizations can.

In some jurisdictions in Canada and elsewhere in the world, ministries of government prepare financial statements. The accounting information found in financial statements provides a means for an organization to align its resources with its programs and planned results. Once the ministries undertake this preparation, it's my experience they all continue to produce them as the information is found to be extremely useful for decision making and public reporting.

Government ministries should publish their own financial statements and include in those statements a comparison of planned and actual financial results.

A multi-year accounting of financial results is required

For several years, I have provided legislators with a multi-year accounting of the government's financial results using generally accepted accounting principles. In my last report, I included nine years of results, from 1996 to 2005 (see my November 2005 report, *Monitoring the Government's Finances*). I publish this information to help legislators understand and assess trends in the government's financial performance. Most private sector organizations and many public sector organizations publish similar trend information.

Recently, the government adopted the same accounting principles for its reporting. However, it has not yet published a multi-year accounting of its financial results using those principles.

What Still Needs To Be Done

I have offered to government our data base of accounting information so it could use and publish multi-year information on its financial results. So far, the government has not accepted my offer and has not yet provided legislators with what I view is essential information—a multi-year accounting of financial results using generally accepted accounting principles.

Government should publish a multi-year accounting of its financial results for the immediate past ten years.

All provincial public sector organizations should publish performance plans and reports

Government ministries and most Crown agencies publish performance plans and reports that describe what they do and the outcomes they achieve. These documents are provided to legislators and serve as an important means by which government explains its performance.

However, many organizations that deliver important public services are not required to publish performance plans and reports. Those organizations include school boards, universities, colleges and health authorities. As a result, a meaningful public scrutiny of their performance is more difficult to conduct.

School boards, universities, colleges and health authorities should publish performance plans and reports in a timely manner using the reporting principles adopted by government.

Government should describe in its performance reports the due diligence carried out to ensure the accuracy of information

Each year, my office assesses the quality of government performance reports and publishes our assessments in a public report. In our last report, we noted the quality of most government performance reports is improving but still remains weak and incomplete in many respects. With few exceptions, we have focused our assessments on whether government organizations are providing the type and range of information required to assess performance. However, we have not been able to assess whether the information is accurate.

What Still Needs To Be Done

If the performance reports of government are to be viewed as being credible, they should include independent assurance from auditors setting out the degree to which the information in such reports is accurate. Legislators need to know whether performance information is accurate when carrying out their responsibilities to oversee government.

In the private sector, regulators and investors require organizations to explain how they know the information in their performance reports is accurate. They do so by describing the due diligence carried out by their organizations. Some are also asking their auditors to verify these descriptions and to report publicly their opinions.

Government organizations should describe in their annual performance reports the due diligence they carried out to ensure the information in their reports is accurate.

Government performance plans and reports should be formally reviewed by legislators

Legislators use a system of standing committees as a means of carrying out public scrutiny of the performance of government. Currently, standing committees exist to examine how government delivers programs and services related to such responsibilities as aboriginal affairs, education and health.

Ten years ago, the select standing committee on public accounts recommended the performance plans and reports of government be referred to standing committees. This recommendation has not yet been acted upon. The purpose of such a referral is to provide legislators with the opportunity to carry out a more meaningful public scrutiny of the performance of government.

Members of standing committees would then review the reports in public forums. In the Fall, they would report publicly on the results of their reviews and provide advice to help the responsible minister plan for the future.

The performance plans and reports of government should be referred to an appropriate standing committee of legislators for review and advice with an expectation that in the Fall of each year, each standing committee would report publicly the results of their views and their advice to the responsible minister.

What Still Needs To Be Done

The government's quarterly financial updates should be examined by the Auditor General

Several times each year, the government provides legislators with a quarterly update of its financial results including a forecast to the year end. Such updates serve as a valuable means for government to explain its performance in a timely manner including any adjustments it is making as a result of changes in priorities or new information. Often, the results forecasted in these updates vary significantly from the original budget plan and from the end of the year results.

In the private sector, auditors examine and report on the extent to which the information in quarterly updates is reliable. Such examinations are needed because quarterly updates are important decision making documents for many external stakeholders.

The government's second and third quarterly financial statements and forecasts should include a statement from the Auditor General setting out the extent to which he or she concludes such statements and forecasts are reliable.

Legislators must provide adequate funding support to the Auditor General

One important responsibility of an Auditor General is to assess the extent to which government manages its responsibilities well. In BC, we refer to such assessments as risk audits. Risk relates to those factors that might have a significant effect on the successful performance of an organization.

One important responsibility entrusted by the public to legislators is to carry out a rigorous scrutiny of the performance of government. An independent Auditor General is one of the few places legislators can look to for objective credible assessments of the government's risk management practices.

In the last several years, legislators chose to reduce the extent to which my Office could examine government's risk management practices by reducing my funding appropriation. I do not understand why legislators chose to restrict my capacity to help them carry out a more rigorous public scrutiny of the performance of government and at a time when government was introducing significant change and risk. I think legislators made a mistake.

What Still Needs To Be Done

The current funding appropriation for my office is similar to the amount provided over ten years ago. In the meanwhile, government has grown significantly and has become much more complex while undertaking enormous change; and its performance management framework has broadened to include school boards, universities, colleges and health authorities. As well, the public's expectations of auditors have increased significantly as a result of widely publicized accountability failures in both the public and private sectors.

As a result of limited funding during my term as Auditor General, I was unable to examine important governance, management and accountability issues related to the significant changes to government service delivery that took place. This was a missed opportunity for government, for legislators and for the people of BC.

When a new Auditor General is appointed, I ask legislators to support his or her work with adequate funding. Currently, there are about ninety people with my office; a more appropriate capacity is one hundred and twenty people.

Legislators should undertake to provide their Auditor General with the funding required to support an office of significantly greater capacity.

Observations at the End of My Term

Through my experience as an Auditor General, I have learned much about the importance of public accountability. As well, I have come to respect enormously all those persons working in the public sector who devote so much of their time and energy to make the best use of scarce public resources and do so in a way that embraces public scrutiny and challenge. This is not an easy task. I offer three observations as a result of my experience.

Legislators need to lead and champion accountability reform

My first observation is that successful accountability reform requires the full and proactive support, endorsement and resource commitment from legislators.

Most of the important accountability reforms of the last several years were supported and endorsed by legislators through the enactment of laws. Examples include laws requiring service plan reports to be published, generally accepted accounting principles to be followed, and performance reporting to be timely.

Legislators must drive successful reform of accountability practice through supporting legislation.

Pressure on accounting measurement is relentless

My second observations is that pressure to relax accounting measurement discipline is relentless. Officials of government are under immense pressure to help government meet its financial targets in as many ways as possible. One way often examined is how best to account for transactions in terms of when and how much to record as an asset or liability and when and how much to record as a revenue or expense.

Each year government enters into new forms of financial agreements and transactions that are not easy to understand or measure. Such transactions require government financial statement preparers and auditors to look through the complexity of the agreements to determine the most appropriate accounting measurement. Examples of such transactions include the restructuring of BC Ferries and BC Rail, funding transfers from the federal government to support the costs of health care, and the 2010 Olympic and Paralympic Winter Games undertaking.

Often, transactions involve the creation of a new organization. In the private sector, such transactions have led to surprises for investors through the discovery of off-balance sheet liabilities. In the public sector, similar surprises can emerge for taxpayers if they are not monitored and addressed rigorously. In BC, the adoption of generally accepted accounting principles by government resulted in the recording of billions of dollars of previously unrecorded or off balance sheet assets and liabilities. This was a significant accountability and transparency step forward that needs to be guarded vigorously.

For example, the BC government recently initiated several special purpose funds that it calls trusts. Significant amounts of money will likely be transferred to these funds to help the government carry out regional development programs. Constant vigilance by legislators and their auditor is required to ensure monies transferred to such special funds and any liabilities incurred through these funds are fully reflected in the government's financial statements.

Legislators must be particularly vigilant when governments propose to create special purpose funds or trusts. Rigorous accounting measurement and disclosure discipline should be the rule to ensure off balance sheet liabilities or assets do not emerge and lead to future problems.

Public business should be public

My final observation is that public business should always be public. When officials set out reasons why the public does not need to know about a transaction or why making information public is somehow against the public interest, rigorous public scrutiny is almost always even more important.

Legislators must strongly encourage and champion the principle that the public has the right to know how government fulfills the responsibilities entrusted to government by the public—as government touches virtually every aspect of a person's life.

Observations at the End of My Term

I wish to take this opportunity to thank the dedicated people in my office who contribute so much of their energy and talent working towards the goal of a stronger, more transparent and accountable public sector. Their dedication is worthwhile and much appreciated.

I also wish to thank the many public officials throughout our province who work each and every day to strengthen the performance of the public sector. The people of our province are well served by their public servants each and every day.

I have been honoured to fulfill the role of BC's Auditor General. The role has been a worthwhile challenge. I thank legislators for providing me with the opportunity to serve the people of our Province. I also wish to give my best wishes to the next Auditor General on his or her journey on the never ending road to stronger public sector accountability.

My recommendations:

1. ***Government ministries should publish their own financial statements and include in those statements a comparison of planned and actual financial results.***
2. ***Government should publish a multi-year accounting of its financial results for the immediate past ten years.***
3. ***School boards, universities, colleges and health authorities should publish performance plans and reports in a timely manner using the reporting principles adopted by government.***
4. ***Government organizations should describe in their annual performance reports the due diligence they carried out to ensure the information in their reports is accurate.***
5. ***The performance plans and reports of government should be referred to an appropriate standing committee of legislators for review and advice with an expectation that in the Fall of each year, each standing committee would report publicly the results of their views and their advice to the responsible minister.***
6. ***The government's second and third quarterly financial statements and forecasts should include a statement from the Auditor General setting out the extent to which he or she concludes such statements and forecasts are reliable.***
7. ***Legislators should undertake to provide their Auditor General the funding required to support an office of significantly greater capacity.***

My observations:

8. ***Legislators must drive successful reform of accountability practice through supporting legislation.***

9. ***Legislators must be particularly vigilant when governments propose to create special purpose funds or trusts. Rigorous accounting measurement and disclosure discipline should be the rule to ensure off balance sheet liabilities or assets do not emerge and lead to future problems.***

10. ***Legislators must strongly encourage and champion the principle that the public has the right to know how government fulfills the responsibilities entrusted to government by the public—as government touches virtually every aspect of a person's life.***